WE ARE A DRIVEN ENTERPRISE

COMPANY INFORMATION

2007

DIRECTORS

The directors who held office during the year and to the date of this report were:

N Kiuna	(Chairman)
J N Kitao	(Managing Director appointed 15 July 2007)
GW Nyuguto	
J Muiruri	
ML Somen	
C Mwende	(appointed 10 August 2006)
S Gachomo	(appointed 16 November 2006)
E Njoroge	(appointed 16 November 2006)
A Jatania	(appointed 16 November 2006)
AJ Nathwani	(resigned 24 July 2006)
I Mariera	(appointed 24 July 2006, resigned 19 April 2007)

COMPANY SECRETARY

JK Kamau

REGISTERED OFFICE

Davies House
Mombasa Road
PO Box 30366
00100 Nairobi

BANKERS

Kenya Commercial Bank Limited
Moi Avenue Branch
PO Box 30081
00100 Nairobi

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
The Rahimtulla Tower
PO Box 43963
00100 Nairobi

2007/1256



CHAIRMAN'S REPORT

I am pleased to present this report as your new Board Chairman following my appointment during the year.

Firstly, I wish to thank Michael Somen for his stewardship of the company as Chairman for 14 years and his continued service on the Board. During the year we welcomed Edward Njoroge and Ajit Jatania to the Board as non-executive Directors and we are grateful for their contribution and guidance to the business.

Mr Isaac Mariera who had joined us last year as Managing Director resigned on 19th April 2007. J N Kitao was appointed Managing Director on 15th July 2007. Mr Simon Gachomo who has served as Head of Finance since July 2006 was appointed to the Board on 16th November 2006.

The Kenyan economy has undergone a dramatic transformation and is set for strong and sustainable growth in 2007. The robust performance is driven mainly by a steady growth in key sectors like tourism, communication and construction. The motor vehicle industry increased marginally from 9,532 units to 10,051 despite the dumping of used vehicles and an unfavourable flat excise duty scenario. The growth in unit sales is attributed mainly to improved economic environment and a strong demand for commercial vehicles. As stated in the last year's report, your company did respond to this development by focusing on the commercial vehicle category

Tata commercial vehicle sales increased by 7%. This is expected to record further success in the coming year as demand for commercial vehicles increase. In addition, the supply of the vehicles has improved significantly after Tata Africa Holdings (Kenya) Limited commenced distribution of the vehicles in Kenya. Significant increase was noted in the Tata bus category that increased by 171% against the industry's 24%. Similar success was recorded in the Heavy Commercial vehicle segment where the Tata truck sales improved by 62% compared to the industry's 57%. In the coming year, we expect this success to be further enhanced and we have allocated significant resources to achieve this.

KIA division sales have declined by 6% despite strong demand as a result of supply chain problems with the Korean factory that has had to contend with heavy demand from the North American and the Asian markets. Despite the establishment of a regional office to coordinate supply to the African market, our orders remained pending for extended periods of time. We have expressed our concerns to the regional office and have been informed that 2007 will be a much better year. Indeed, we have placed significant orders and we believe that this situation is finally coming to an end.

Peugeot sales have declined by 12% which is consistent with industry trend in the passenger segment as a result of reduced government orders following the Ministry of Finance directive to government departments regarding the purchase of vehicles. The company has addressed this by launching new models like the recently launched Peugeot 207 model which is less institutional dependent. We have also aggressively marketed the Peugeot 407 model with reasonable success.

During the year, we successfully carried out a staff rationalisation and reorganisation of our business. The purpose of the exercise was to create a leaner and more efficient operation and cut on our operating costs. Going forward, we expect to consolidate our savings to reduce our finance costs and create value to you the shareholders. The rationalisation costs of Kshs 51 Million have been disclosed in the financial statements.

Despite the trading conditions noted above, I am pleased to report that your company posted a profit for the year of Kshs 42 Million. We believe that our profit generation is sustainable and consequently, your board is recommending a first and final dividend of Kshs 1 per ordinary share. Preference shareholders will, consistent with prior years receive their dividends amounting to a total of Kshs 35,000.

Looking ahead, we expect to have a better year ahead and are confident that we have the correct resources and the desired cost structure to run the business operations profitably.

Finally, I would like to express my gratitude to the shareholders, employees, stakeholders, directors, principals and customers for their wonderful support in what has been yet another challenging but successful year for Marshalls.

Ngugi Kiuna
Chairman
2 July 2007

DIRECTORS REPORT

for the year ended 31 March 2007

The directors submit their report together with the audited financial statements for the year ended 31 March 2007, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activity of the company and its associate is to assemble, sell and service motor vehicles.

RESULTS AND DIVIDEND

The net profit for the year of Shs 42,321,000 (2006: Shs 44,700,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend of Shs 14,393,000 (2006: Shs 14,393,000).

DIRECTORS

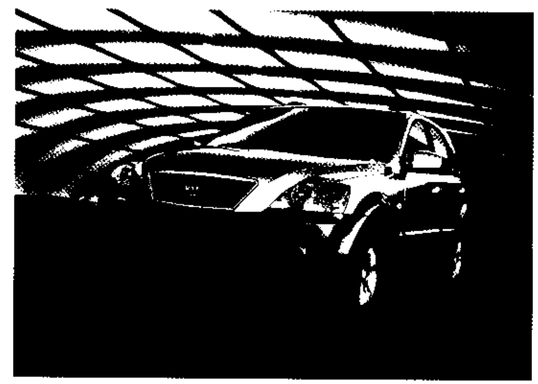
The directors who held office during the year and to the date of this report are disclosed on page 2.

AUDITORS

The companys auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Companies Act.

By order of the Board

J K Kamau
Secretary
2 July 2007



CORPORATE GOVERNANCE

1. INTRODUCTION

Marshalls (East Africa) Limited is committed to the highest standards of governance and has established a number of management and social responsibility principles in addition to the standards of Corporate Governance introduced by Capital Market Authority. The Board of Directors is responsible for the long-term growth and profitability of the company.

2. THE BOARD OF DIRECTORS

The Board comprises of 9 Directors of whom 3 are executive. The Managing director's performance is measured continuously. Any impending resignation of Directors and the underlying circumstances are disclosed in the annual report.

The non- executive directors are considered to be independent of management influence and do not engage in any business or interest that could impair their participation in the management of the company.

All Directors are required to submit themselves for re-election every three years.

The Directors are given appropriate and timely information so that they can maintain full and effective control over all strategic, financial, operational and compliance issues. The Board meets at least 4 times a year with additional meetings held as and when the need arises.

Whilst the day to day running of the business of the company is delegated to the Managing Director, the Board is responsible for establishing and maintaining the Company's system of internal controls so that its objectives of growth in profitability and shareholder value maximisation are realized.

All Directors receive formal information on their role, duties, responsibilities and obligations as well as board practices and procedures on first appointment. Subsequently, they are kept informed of corporate governance, changing corporate environment, business, commercial risks and other matters that are of interest in the execution of their role.

3. BOARD MEETING

The Board of Directors meet at least once every quarter to monitor the company's financial performance, planned strategy and review performance. Specific reviews are also undertaken of management performance, operational issues and future planning as and when needed.

4. BOARD COMMITTEES

There are two main committees chaired by Non Executives directors that meet regularly under the terms of reference set out by the Board.

a) Audit Committee
The audit committee is chaired by Mr. J. Muiruri a Non Executive director. With attendance by invitation of the Managing Director and other key personnel, the committee reviews the effectiveness of internal controls and discusses audit reports.

b) Remuneration Committee
This committee is chaired by Mr. G. Nyuguto also a non Executive Director. It meets regularly to receive staff reports from management and is appraised on staff performance against targets whilst ensuring compliance and to issue guidelines where necessary.

The Board appoints other committees as and when required.

CORPORATE GOVERNANCE *Continued*

5. COMMUNICATION WITH SHAREHOLDERS

The Company is committed to:

- Ensuring that the shareholders and financial markets are provided with full and timely information about its performance.
- Compliance with regulation and obligations contained in the Nairobi Stock Exchange Listing Rules and the Capital Markets Authority Act.

This is usually done through the distribution of the Company's Annual Report and the release of notices to the NSE of its half yearly and annual results.

6. DIRECTOR'S EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to directors for services rendered is disclosed in the financial statements. No arrangements exist whereby a Director could acquire Company' shares on beneficial terms.

There were no directors loans at any time during the year.

DISTRIBUTION OF SHAREHOLDERS AS AT 31 MARCH 2007

Shareholding	No. of Shares	No. of Shareholders	% Share Held
Less than 500	22,859	118	0.16
500-5,000	393,441	219	2.73
5,001-10,000	167,379	23	1.16
10,001- 100,000	1,535,909	58	10.67
100,001 -1,000,000	912,086	4	6.34
Above 1,000,000	11,361,433	2	78.94

TOP TEN SHAREHOLDERS AT 31 MARCH 2007

Name	Share Held	% Held
Marshalls Investments Limited	9,438,048	65.57
Woodside Limited	1,923,385	13.36
Mr. Kirtesh Premchand Shah	472,354	3.28
Mrs. S V R Shah	156,606	1.09
Mr. Alimohamed Adam	148,124	1.03
Estate of late HH Marshall	135,002	0.94
Mahendra Dahyabhai Patel	75,732	0.53
Mrs. Gwynaeth Mary Laxton	72,747	0.51
Cannon Assurance (Kenya) Limited	65,500	0.45
CFCS Nominees Limited A/c K014	49,445	0.34

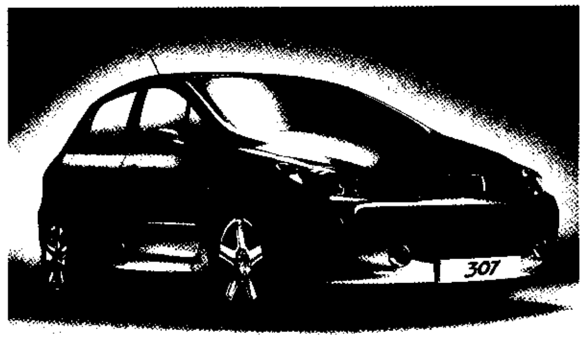
7. CORPORATE SOCIAL RESPONSIBILITY

Marshalls is committed to the environment and in our policies a deliberate effort is made to its enhancement. To this end, we have been certified compliant with National Environment Management Authority's (NEMA) policy for safety, health and environment regulations.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 March 2007

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.



The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

N Kiuna
Director
2 July 2007

S Gachomo
Director

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF MARSHALLS (EAST AFRICA) LTD

for the year ended 31 March 2007

Report on the financial statements

We have audited the accompanying financial statements of Marshalls (East Africa) Limited set out on pages 10 to 28. These financial statements comprise the balance sheet at 31 March 2007, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the company's financial affairs at 31 March 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

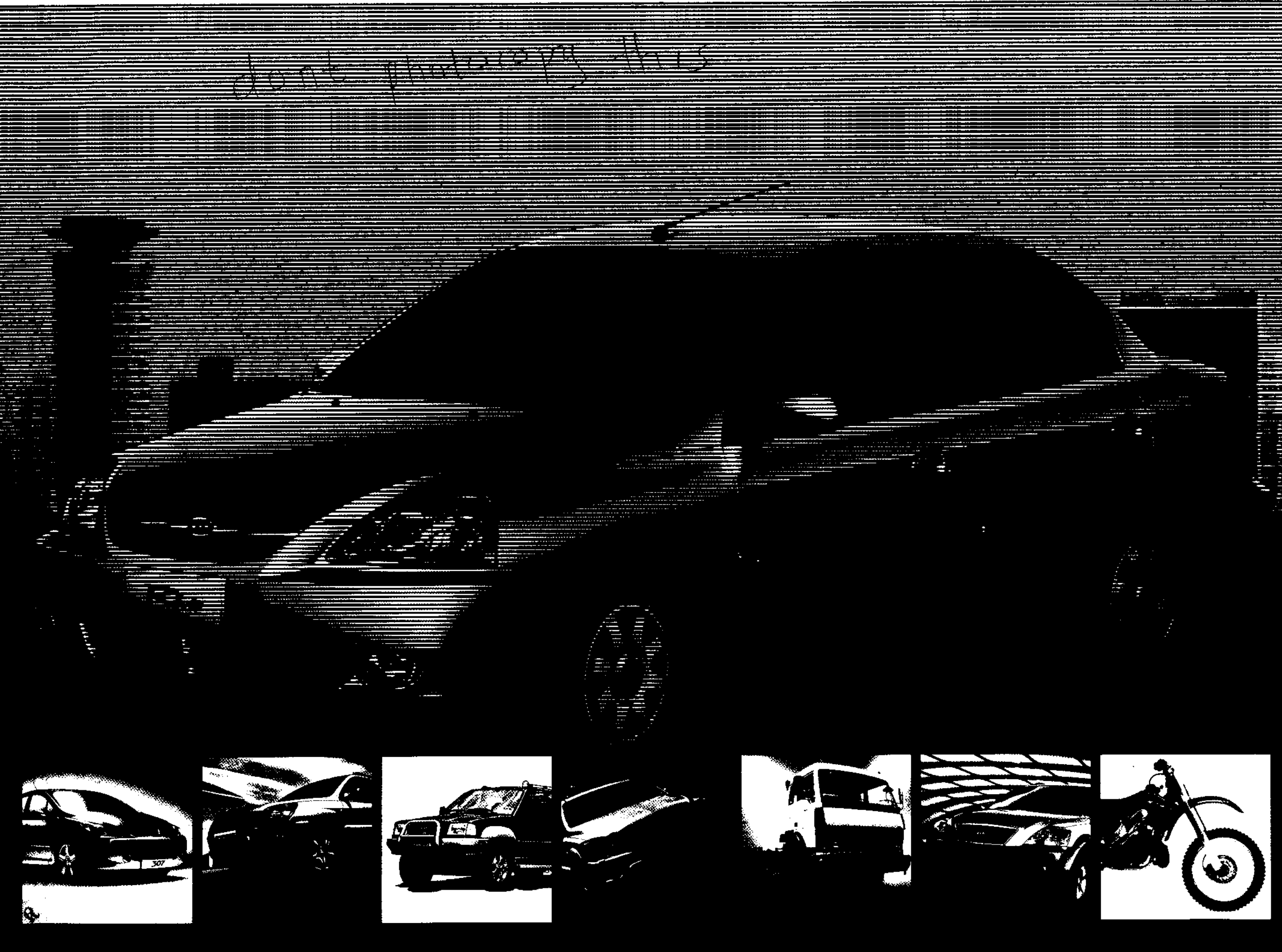
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books and;

iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

PRICEWATERHOUSECOOPERS

Certified Public Accountants
Nairobi

2 July 2007



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PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2007

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	Notes	Year ended 31 March 2007 Shs'000	2006 Shs'000
Revenue	6	1,291,845	1,304,988
Cost of sales		(871,594)	(946,595)
Gross profit		420,251	358,393
Other operating income		2,493	222
Profit on disposal of property and equipment		2,017	6,679
Administrative expenses		(270,764)	(262,856)
Other operating expenses		(39,189)	(45,043)
Restructuring expenses		(51,248)	-
Operating profit	7	63,560	57,395
Share of results of associate	19	9,490	20,847
Finance costs	9	(30,729	(33,542)
Profit before income tax		42,321	44,700
Income tax expense	10	-	-
Profit for the year		42,321	44,700
		Shs	Shs
Earnings per share (Basic and diluted)	11	2.94	3.11
Dividends per share	11	1.00	1.00

BALANCE SHEET

for the year ended 31 March 2007

	Notes	Year ended 31 March 2007 Shs'000	2006 Shs'000
CAPITAL EMPLOYED			
Share capital	12	71,966	71,966
Revaluation surplus	13	251,102	152,713
Retained earnings		125,521	94,089
Dividend proposed	11	14,393	14,393
Shareholders' funds		462,982	333,161
Non-current liabilities			
Preference shares	14	500	500
Borrowings	15	106,698	142,205
Deferred income tax	16	84,970	-
		192,168	142,705
REPRESENTED BY		655,150	475,866
Non-current assets			
Property and equipment	17	319,169	227,462
Prepaid operating lease rentals	18	1,944	1,993
Investment in associate	19	197,574	107,209
		518,687	336,664
Current assets			
Inventories	20	428,066	500,677
Receivables and prepayments	21	308,692	243,778
Current income tax		137	123
Cash and cash equivalents	22	(473)	3,229
		737,368	747,807
Current liabilities			
Payables and accrued expenses	23	250,117	280,420
Dividends payable		11,768	209
Borrowings	15	339,020	327,976
		600,905	608,605
Net current assets		136,463	139,202
		655,150	475,866

The financial statements on pages 10 to 28 were approved for issue by the board of directors 2 July 2007 and signed on its behalf by:

N Kiuna
Director

S Gachomo
Director

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2007

	Notes	Share capital Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 March 2006						
At start of year		71,966	157,500	58,995	-	288,461
Revaluation surplus of associate		-	7,659	(7,659)	-	-
Released on disposal of assets		-	(13,126)	13,126	-	-
Deferred income tax thereon	16	-	3,938	(3,938)	-	-
Transfer of excess depreciation		-	(4,355)	4,355	-	-
Deferred income tax thereon	16	-	1,307	(1,307)	-	-
Net (losses)/gains recognised directly in equity		-	(4,577)	4,577	-	-
Profit for the year		-	-	44,700	-	44,700
Proposed dividend		-	-	(14,393)	14,393	-
At end of year		71,966	152,923	93,879	14,393	333,161
Year ended 31 March 2007						
At start of year		71,966	152,923	93,879	14,393	333,161
Surplus on revaluation of property (net)		-	74,192	-	-	74,192
Revaluation surplus of associate		-	80,875	-	-	80,875
Deferred tax not previously recognised on revaluation surplus		-	(53,174)	-	-	(53,174)
Transfer of excess depreciation		-	(5,306)	5,306	-	-
Deferred income tax thereon	16	-	1,592	(1,592)	-	-
Net gains recognised directly in equity		-	98,179	3,714	-	101,893
Profit for the year		-	-	42,321	-	42,321
Dividends:						
Final for 2006		-	-	-	(14,393)	(14,393)
Proposed final for 2007		-	-	(14,393)	14,393	-
At end of year		71,966	251,102	125,521	14,393	462,982

CASH FLOW STATEMENT

for the year ended 31 March 2007

	Notes	Year ended 31 March 2007 Shs'000	2006 Shs'000
Operating activities			
Cash generated from/(used in) operations	25	65,224	(34,574)
Interest received	9	191	259
Interest paid	9	(42,693)	(65,079)
Income tax paid		(14)	(79)
Net cash generated from/(used in) operating activities		22,708	(99,473)
Investing activities			
Purchase of property and equipment	17	(5,808)	(9,709)
Proceeds from disposal of property and equipment		7,676	21,851
Dividends received from associate	19	-	15,000
Dividends on ordinary shares		(2,836)	-
Net cash from investing activities		(968)	27,142
Financing activities			
Proceeds from borrowings		2,682	-
Payments on borrowings		(33,329)	(32,443)
Payment of dividend on preference shares		(33)	(29)
Net cash used in financing activities		(30,680)	(32,472)
Decrease in cash and cash equivalents		(8,940)	(104,803)
Movement in cash and cash equivalents			
At start of year		(295,732)	(190,929)
Decrease		(8,940)	(104,803)
At end of year	22	(304,672)	(295,732)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007

1 General information

Marshalls (East Africa) Limited is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The company's shares are quoted at the Nairobi Stock Exchange (NSE). The address of its registered office is:

Davies House, Mombasa Road
PO Box 30366 00100 Nairobi

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of buildings and freehold land.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards

In 2007 new and revised standards interpretations became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards had no material effect on the company's accounting policies or disclosures.

Standards, interpretations and amendments to published standards that are not yet effective.

The following amendment to an existing standard and a new standard will be mandatory for the Company's accounting periods beginning on or after 1 January 2007, but which the Company has not early adopted:

- *IAS 1 Amendment, Capital Disclosures.* The amendment to IAS 1 introduces disclosures about the level of the Company's capital and how it manages capital

-*IFRS 7, Financial Instruments: disclosure.* IFRS 7 introduces new disclosures to improve the information about financial Instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity and market risk, including sensitivity analysis to market risk.

(b) Investment in associates

Associates are entities over which the company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The company's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured

2 Summary of significant accounting policies *Continued*

receivables, the company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the company and its associates are eliminated to the extent of the company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

The company operates in one geographical segment and has one primary business segment, the sale of motor vehicles supported by after sales workshop services.

(d) Revenue recognition

Sales of goods are recognised in the period in which the risks and rewards are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services are recognised in the period in which the services rendered are completed.

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

(e) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(f) Property and equipment

All categories of property and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on valuations by external independent valuers, less subsequent depreciation for buildings. All other property and equipment is stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account. Each year the difference between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

2 Summary of significant accounting policies *Continued*

depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the methods shown below to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings on leasehold land	over the remaining period of the lease
Buildings on freehold land	2% on straight line
Computers	30% on straight line
Motor vehicles	25% on reducing balance
Machinery, furniture and equipment	15% on straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(g) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method for motor vehicles, motor cycles and power products. All other inventory is valued on a weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(i) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(j) Employee benefits

(i) Retirement benefit obligations

The company operates a defined contribution retirement benefit scheme for all its employees. A defined contribution plan is one under which the

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

2 Summary of significant accounting policies *Continued*

company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The company's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(k) Restructuring provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the Company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy or numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the company are not provided in advance

(l) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(n) Preference shares

Cumulative preference shares are classified as liabilities.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

2 Summary of significant accounting policies *Continued*

(o) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

3 Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates and interest rates. The company's overall risk management programme seeks to minimise potential adverse effects on its financial performance.

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The company manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using forward contracts, but has not designated any derivative instruments as hedging instruments.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances

(i) Critical accounting estimates and assumptions

Restructuring provisions

Critical assumptions are made by the directors in determining the amounts payable to employees on declaring them redundant.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables.

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment. The rates used are set out in Note 2(f) above.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the company's accounting policies, management has made judgements in determining the classification of leases and whether assets are impaired.

5 *Going concern*

The financial statements have been prepared on a going concern basis, which assumes continued availability of the company's banking facilities to meet its obligations as they fall due. The current facilities were renewed on 10 April 2007 and expire on 31 March 2008. In the circumstances, the directors are of the opinion that the going concern basis of preparing the financial statements is appropriate

6 Revenue

	2007 Shs'000	2006 Shs'000
Sale of vehicles, motor cycles and power products	990,191	960,805
Sale of spare parts and workshop services	301,654	344,183
	1,291,845	1,304,988

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

7 Operating profit

The following items have been charged/(credited) in arriving at operating profit:

	2007 Shs'000	2006 Shs'000
Depreciation of property and equipment (Note 17)	14,430	21,119
Repairs and maintenance expenditure on property and equipment	4,096	4,786
Profit on disposal of property and equipment	(2,017)	(6,679)
Operating lease rentals:		
- leasehold land (Note 18)	49	49
- buildings	38,831	36,226
Receivables – provision for impairment losses	2,302	10,399
Inventories expensed	877,179	896,526
Write back of inventories	(46,000)	(12,717)
Employee benefits expense (Note 8)	149,914	138,948
Auditors' remuneration	2,310	2,150

8 Employee benefits expense

The following items are included within employee benefits expense:

	2007 Shs'000	2006 Shs'000
Retirement benefits costs:		
- Defined contribution scheme	5,920	7,395
- National Social Security Fund	665	788

9 Finance income/(costs)

	2007 Shs'000	2006 Shs'000
Interest income	191	259
Interest expense on bank borrowings	(42,693)	(65,079)
Net foreign exchange gain	11,808	31,313
Dividends on preference shares	(35)	(35)
	(30,729)	(33,542)

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

10 Income tax

	2007 Shs'000	2006 Shs'000
Current tax	-	-
Deferred tax (Note 16)	-	-
	-	-

There is no income tax charge arising in the period on the company's results owing to accumulated tax losses.

The tax on the company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2007 Shs'000	2006 Shs'000
Profit before income tax	42,321	44,700
Tax calculated at the statutory income tax rate of 30%	12,696	13,410
Tax effect of:		
Income not subject to tax	(7,714)	(11,454)
Expenses not deductible for tax purposes	2,130	1,586
Deferred income tax asset not recognised (Note 16)	(7,112)	(3,542)
Income tax expense	-	-

11 Earnings and dividends per share

Earnings per share is calculated by dividing the profit attributable to shareholders (profit for the year) by the number of ordinary shares in issue during the year.

	2007	2006
Profit attributable to shareholders (Shs '000)	42,321	44,700
Weighted average number of ordinary shares (thousands)	14,393	14,393
Basic earnings per share	2.94	3.11

There were no potentially dilutive shares outstanding at either year-end.

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting.

At the next annual general meeting, a first and final dividend in respect of the year ended 31 March 2007 of Shs 1 per share amounting to a total of Shs 14,393,000 is to be proposed.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

12 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 April 2005, 1 April 2006 and 31 March 2007	14,393,106	71,966

The total authorised number of ordinary shares is 15,000,000 with a par value of Shs 5 per share. All issued shares are fully paid.

13 Revaluation surplus

The revaluation surplus represents the surplus on the revaluation of buildings and freehold land net of deferred income tax and is non-distributable.

14 Preference shares – 7% cumulative preference shares

	Number of shares	Share capital Shs'000
Balance at 1 April 2005, 1 April 2006 and 31 March 2007	25,000	500

The total authorised number of preference shares is 50,000 with a par value of Shs 20 each. All issued shares are fully paid.

15 Borrowings

	2007 Shs'000	2006 Shs'000
Borrowings are made up as follows:		
Non – current		
Bank loan	106,698	142,205
Current		
Bank overdraft	79,474	186,084
Post import finance-short-term borrowing	225,671	112,877
Bank loan	33,875	29,015
	339,020	327,976
Total borrowings	445,718	470,181
Maturity profile of non-current borrowings		
Between 1 and 2 years	69,797	32,695
Between 2 and 5 years	36,901	109,510
Over 5 years	-	-
	106,698	142,205

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

15 Borrowings *Continued*

In the opinion of the directors, the carrying amount of the bank loan approximates to the fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the company at the balance sheet date. The effective interest rate at the year end was 12% (2006: 12%).

Post import finance is a short-term borrowing payable over a maximum of 6 months and the weighted average effective interest rate at year end was 7% (2006: 7%)

The borrowing facilities are reviewed annually and are next subject to review on 31 March 2008.

The bank borrowings are secured by a first charge on the company's land and buildings, a floating debenture over the company's assets and debenture over the assets of certain related companies.

16 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2006: 30%). Deferred income tax assets and liabilities are attributable to the following items:

	1 April 2006 Shs'000	Charged/ (credited) to P/L Shs'000	Charged/ (credited) to equity Shs'000	31 March 2007 Shs'000
Deferred income tax liabilities/assets				
Property and equipment:				
- on historical cost basis	(8,763)	702	-	(8,061)
- on revaluation surpluses	53,174	-	31,796	84,970
Provisions	(2,349)	1,709	-	(640)
Unrealised exchange gains	103	10,238	-	10,341
Tax losses carried forward	(69,371)	(5,537)	-	(74,908)
Net deferred income tax assets/liability	(27,206)	7,112	31,796	11,702
Deferred income tax not recognised	80,380	(7,112)	-	73,268
Net deferred income tax recognised	53,174	-	31,796	84,970

The deferred tax assets from the tax losses and other deductibles carried forward have not been recognised on the basis that the company does not expect to generate profits to utilise the asset in the foreseeable future. However a cumulative deferred tax liability relating to the revaluation surplus has been charged to equity and recognised in these financial statements.

Deferred income tax of Shs 1,592,000 (2006: Shs 1,307,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the revalued property and the equivalent depreciation based on the historical cost of the property.

17 Property and equipment

Year ended 31 March 2006

	Buildings & freehold land Shs'000	Buildings on leasehold land Shs'000	Motor vehicles Shs'000	Machinery, furniture & equipment Shs'000	Total Shs'000
Cost or valuation					
At start of year	48,098	186,900	69,005	191,843	495,846
Additions	-	-	7,620	2,089	9,709
Disposals	-	(14,500)	(6,897)	(195)	(21,592)
At end of year	48,098	172,400	69,728	193,737	483,963
Depreciation					
At start of year	2,304	17,229	48,680	173,597	241,810
Charge for the year	576	3,964	6,496	10,083	21,119
Disposals	-	(1,221)	(5,012)	(195)	(6,428)
At end of year	2,880	19,972	50,164	183,485	256,501
Net book amount	45,218	152,428	19,564	10,252	227,462
Year ended 31 March 2007					
Cost or valuation					
At start of year	48,098	172,400	69,728	193,737	483,963
Revaluation	7,111	76,027	-	-	83,138
Additions	-	1,587	1,252	2,969	5,808
Disposals	-	-	(21,387)	(304)	(21,691)
At end of year	55,209	250,014	49,593	196,402	551,218
Depreciation					
At start of year	2,880	19,972	50,164	183,485	256,501
Charge for the year	661	4,554	3,824	5,391	14,430
Write back on revaluation	(2,880)	(19,970)	-	-	(22,850)
Disposals	-	-	(15,941)	(91)	(16,032)
At end of year	661	4,556	38,047	188,785	232,049
Net book amount	54,548	245,458	11,546	7,617	319,169



NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

17 Property and equipment *Continued*

As set out in Notes 15 and 24, the company's land and buildings have been charged in respect of certain bank borrowings of the company and related parties.

Buildings and freehold land were last revalued in 2006, by Hass Consult Limited, independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the valuations and the resultant surplus net of deferred income tax was credited to revaluation surplus in shareholders' equity.

If the buildings and freehold land were stated on the historical cost basis, the amounts would be as follows:

	2007 Shs'000	2006 Shs'000
Cost	9,053	9,053
Accumulated depreciation	(7,544)	(7,335)
Net book amount	1,509	1,718

18 Prepaid operating lease rentals

	2007 Shs'000	2006 Shs'000
At start of year	1,993	2,049
Disposals	-	(7)
Amortisation charge for the year	(49)	(49)
At end of year	1,944	1,993

If the leasehold land were stated at revalued amounts based on a valuation carried out by Hass Consult Limited in October 2006, the amounts would be as follows:

	2007 Shs'000	2006 Shs'000
Valuation	178,332	145,594
Accumulated amortisation	(4,370)	(15,719)
	173,962	129,875

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

19 Investment in associate

	2007 Shs 000	2006 Shs 000
At start of year	107,209	101,362
Share of profit before income tax	9,490	20,847
Share of income tax	80,875	-
	90,365	20,847
Dividends received	-	(15,000)
At end of year	197,574	107,209
Investment at cost	59,947	59,947

The share of results of the associate is based on the audited financial statements of Associated Vehicle Assemblers Limited for the year ended 30 September 2006 and management accounts for the six months ended 31 March 2007.

The company has invested in 270,000 ordinary shares of Associated Vehicle Assemblers Limited representing 50% shareholding. Associated Vehicle Assemblers Limited is incorporated in Kenya as a private limited liability company and its principal activity is assembling of motor vehicles. There were no changes in the interests held in the associate during the year.

20 Inventories

	2007 Shs 000	2006 Shs 000
Vehicles	296,576	403,116
Spare parts and consumables	131,490	97,561
	428,066	500,677

The company has reversed Shs 46million (2006: Shs 13 million) of impairment provisions for spare parts, during the year, following a reassessment of the saleability of the spares supported by a programme to dispose them of.

21 Receivables and prepayments

	2007 Shs 000	2006 Shs 000
Trade receivables	195,115	242,040
Less: Provision for impairment losses	(21,109)	(18,776)
	174,006	223,264
Amounts due from related companies (Note 27)	63,914	4,712
Other receivables and prepayments	70,771	15,802
	308,691	243,778

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

22 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits with banks, net of bank overdrafts. On the balance sheet, bank overdrafts are included in borrowings in current liabilities.

The year-end cash and cash equivalents comprise the following:

	2007 Shs'000	2006 Shs'000
Cash at bank and in hand	473	3,229
Bank overdraft (Note 15)	(79,474)	(186,084)
Post import finance - short term borrowing (Note 15)	(225,671)	(112,877)
	(304,672)	(295,732)

23 Payables and accrued expenses

Trade payables	133,953	198,773
Amounts due to related companies (Note 27)	21,229	11,029
Other payables and accrued expenses	94,935	70,618
	250,117	280,420

24 Contingent liabilities

At 31 March 2007, the company had issued a debenture for Shs 180,000,000 and a legal charge on its land and buildings to its bankers to secure banking facilities granted to a related company. The debenture is secured by a floating charge over the company's assets. The legal charge on the land and buildings is additional to other legal charges to secure the company's own banking facilities granted by the same bank, as set out on Note 15.

The company has undertaken to provide additional financial support as is necessary to enable a related company to meet its financial obligations as and when they fall due. The directors expect to collect all amounts already incurred with respect to these amounts and do not anticipate that further any liability will crystallise in respect of these undertakings.

There is an open tax issue that is currently the subject of discussion between Marshalls (East Africa) Limited and the Kenya Revenue Authority. Based on appropriate professional advice, the directors are of the opinion that no significant liability is expected and therefore, no provision has been made in these accounts.



NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

25 Cash generated(used in)/from operations

Reconciliation of profit before income tax to cash generated/(used in) from operations:

	2007 Shs'000	2006 Shs'000
Profit before income tax	42,321	44,700
Adjustments for:		
Interest income (Note 9)	(191)	(259)
Interest expense (Note 9)	42,693	65,079
Dividend on preference shares(Note 9)	35	35
Depreciation on property and equipment (Note 17)	14,430	21,119
Amortisation of prepaid operating lease rentals (Note 18)	49	49
Profit on sale of property and equipment	(2,017)	(6,679)
Share of results of associate company (Note 19)	(9,490)	(20,847)
Changes in working capital		
- inventories	72,611	(61,934)
- receivables and prepayments	(64,914)	(53,059)
- payables and accrued expenses	(30,303)	(22,778)
Cash generated from/ (used in) operations	65,224	(34,574)

26 Commitments

Capital commitments

	2007 Shs'000	2006 Shs'000
Property plant and equipment	30,000	-

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2007 Shs'000	2006 Shs'000
Not later than 1 year	20,038	40,814
Later than 1 year and not later than 5 years	80,150	5,012
	100,188	45,826

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the year ended 31 March 2007

27 Related party transactions

The company is a subsidiary of Marshalls Investments Limited incorporated in Kenya. The ultimate parent of the Group is Driscoll Investments Limited, incorporated in British Virgin Islands. There are other companies that are related to Marshalls (East Africa) Limited through common shareholdings or common directorships.

The following transactions were carried out with the associate and fellow subsidiaries:

	2007 Shs 000	2006 Shs 000
i) Purchase of goods	22,499	36,712
ii) Sale of goods	10,107	48,548
iii) Key management compensation		
Salaries and other short-term employment benefits	22,733	18,623
Termination benefits	5,283	-
Post-employment benefits	-	870
	28,016	19,493
iv) Directors remuneration		
Fees for services as a director	3,800	1,400
Other emoluments (included in key management compensation above)	13,173	6,183
	16,973	7,583
v) Outstanding balances		
Due from related companies:		
Gross receivables	208,044	182,464
Less: provision for impairment	(144,880)	(177,752)
	63,914	4,712
Due to related companies	21,229	11,029